



**Director of
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SYRIA-LEBANON:

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Meanwhile, the US Embassy in Beirut reports that Muslims in West Beirut are unhappy with the Lebanese-Israeli withdrawal agreement. Their earlier acceptance of the accord as unpalatable but unavoidable has been replaced by shock as they recognize Syria's reluctance to withdraw. They realize that Lebanon could face indefinite occupation, de facto partition, and the stigma of having sold out to Israel.

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Almost all Lebanese Muslims fear that a Phalange-dominated Lebanon closely allied with Israel will isolate them from the rest of the Arab world. The Sunni Muslims, like other establishment groups, believe that only the US can provide a solution to Lebanon's problems. If a solution is not forthcoming, these Muslims are likely to ally themselves with Lebanese leftists.

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PLO: Dissension in Fatah

The Fatah leadership met yesterday to consider its next steps in dealing with the dissident leftist officers opposed to PLO and Fatah leader Arafat. [redacted]

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Shortly before the meeting, the dissidents rejected Arafat's appointment of an anti-Syrian officer as head of all Palestinian forces in Lebanon and said they will continue to refuse to obey orders until their demands for a purge of Fatah ranks are met. They also called on the PLO to form a "national front" with Lebanese leftists to resist the Israeli occupation. [redacted]

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Comment: Arafat's hold on power does not currently appear threatened. He retains the support of most senior Fatah officials, and no other Palestinian groups have publicly backed the dissidents, although some are likely to support privately the anti-Arafat moves.

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Nevertheless, this is the most serious challenge Arafat has faced in several years. He apparently hopes to deal with the dissidents by branding them as Libyan puppets, while quietly agreeing to their demand for a general conference to discuss their complaints. [redacted]

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[redacted] The dissent probably stems, however, largely from new efforts by Damascus to play on longstanding opposition among Fatah leftists to Arafat's moderate policies in a bid to bring the PLO under Syria's control. [redacted]

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NICARAGUA: Military Pressure by Guerrillas

Insurgents on all three fronts continue to harass the Sandinistas.

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Press reports say that a group of US and other journalists and their military escorts were pinned down by the insurgents on Sunday in an ambush near Jalapa. The spokesman for the Sandinista Defense Ministry was wounded in the incident, which was said to be part of an insurgent offensive from Honduras intended to seize some territory as a base of operations. [REDACTED]

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In Costa Rica, press reports claim that insurgent leader Pastora was almost trapped following an attack he led last week near Colonia Nueva Guinea. The Sandinistas have not publicly acknowledged the attack. [REDACTED]

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Comment: The attacks around Jalapa do not appear to be part of a large offensive. The insurgents in the northeast are not known to have aircraft, and the damage at Puerto Cebezas may be the result of sabotage. [REDACTED]

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To dramatize their charges of US and Honduran aggression, the Sandinistas frequently invite delegations of foreign journalists and diplomats to tour the border area. The Sandinistas probably will make effective use of the incident in their propaganda. On the other hand, their silence on Pastora's actions suggests they are reluctant to help him advertise his presence in Nicaragua. [REDACTED]

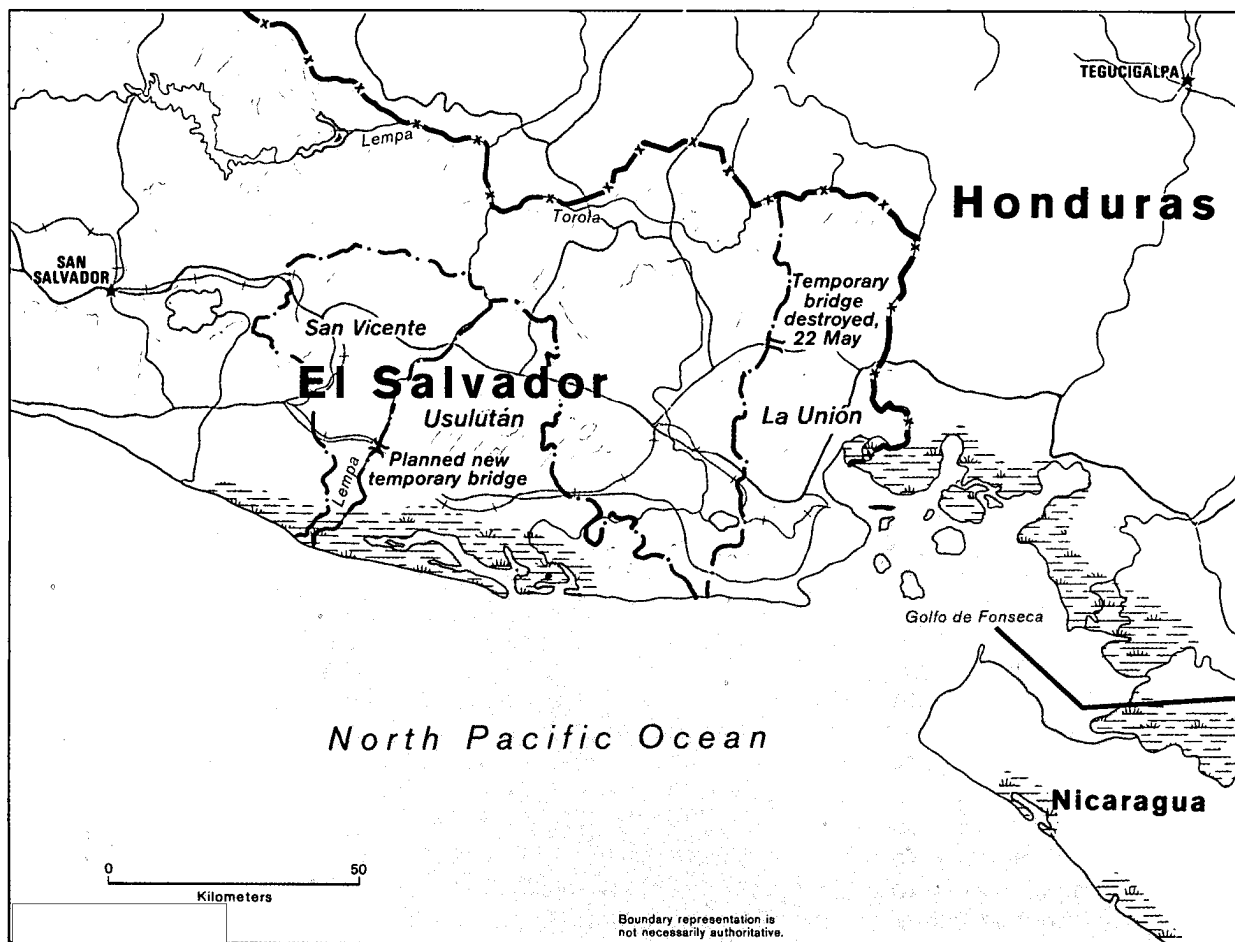
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EL SALVADOR: New Government Campaign

San Salvador's planned civil-military campaign in the southeast is risky for the armed forces. [redacted]

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The government is planning a major pacification operation to establish control of the strategically important departments of San Vicente and Usulután. Military sweep operations will begin in about two weeks and will involve as many as seven Army battalions. [redacted]

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After the sweep operations, some military forces are to remain behind to prevent the guerrillas from returning until new civilian defense forces can be trained. Civilian government agencies—using US development aid—will begin rebuilding the economic and social infrastructure. [redacted]

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The insurgents, meanwhile, continue to attack roads, bridges, and other targets in the region. The government plans to set up a temporary bridge over the Lempa River to replace the key Oro Bridge, which linked central El Salvador with the east until it was destroyed in 1981. [redacted]

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Eleven US-supplied temporary Bailey bridges have been installed to replace structures damaged by the guerrillas. Press reports say the insurgents destroyed one of the bridges in La Unión Department over the weekend. [redacted]

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POLAND: Debt Rescheduling

The Paris Club—the group of major Western governments responsible for rescheduling Poland's officially backed debt—has agreed to delay a decision on new negotiations until Warsaw provides previously requested information on its adherence to the rescheduling agreement of 1981 and explains its unequal treatment of creditors.

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The governments have asked Warsaw to respond by the end of next month. The Paris Club is to meet in late July to decide whether to proceed with a rescheduling of obligations for 1982 and 1983.

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Many governments believe that the stalemate on renewing negotiations benefits only Warsaw and Western banks because Poland has made no payments on officially backed debts since December 1981. It has paid \$2.2 billion to commercial banks under their rescheduling agreements.

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Meanwhile, Western banks have drafted a proposal for rescheduling 90 percent of Poland's principal payments for 1983 over eight and a half years and for refinancing 50 percent of the interest payments due this year. The Poles and the banks are scheduled to discuss this proposal early next month.

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Comment: The creditors probably will become disunited if the Paris Club does not resume negotiations with Poland after the meeting in July. Neutral governments—particularly Sweden and Switzerland—are anxious to reschedule, and a move by these countries would increase pressures within some allied governments to break ranks as well.

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The handling of the Pope's visit to Poland will be a critical factor in the Western governments' decision in July. Even if the governments resume bilateral talks with Poland, any rescheduling effort will proceed slowly.

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The governments have not yet discussed rescheduling terms among themselves, and any proposal that does not include new loans probably will be rejected by Warsaw. Even if agreement is reached on terms, Poland does not have enough liquid funds to meet its obligations under the Paris Club agreement of 1981 and still make payments due under the commercial bank reschedulings of 1981 and 1982.

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USSR-AFGHANISTAN: Domestic Criticism of Policies

During the past week, Radio Moscow World Service has carried five English-language broadcasts highly critical of Soviet policy in Afghanistan. The commentator last Wednesday said that tribal leaders in Afghanistan had disagreed with the policies of the government in Kabul and had urged antigovernment groups not to lay down their arms but to "fight against the Soviet invasion." The same broadcaster on Monday announced that the Afghan people were playing an increasing role in defending against "Soviet occupants" and that tribes in the east had joined the struggle against the "Soviet invaders." In commenting on the incidents yesterday, a Soviet spokesman attributed the remarks to the announcer personally. []

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Comment: The unprecedented broadcasts almost certainly are the work of an individual who opposes Soviet involvement. Soviet journalists know more than most others in the USSR about the gap between official propaganda and the realities in Afghanistan. Nevertheless, the broadcasts could reflect government infighting, perhaps aimed at discrediting the head of the Central Committee department that oversees Radio Moscow. []

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UK-SYRIA-USSR: Possible Transfer of Technology

[] a British manufacturer has contracted to deliver a number of IR 18 MARK II thermal-imaging devices to the Syrians for installation in their Soviet-built helicopters. These highly advanced devices are used for fire control, night vision, and navigation and can be ground-based, heliborne, or mounted on ships. []

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Comment: If the sale is made, it will pose a potentially serious technology transfer problem for the West. Syria almost certainly would make the system available to the Soviets, who probably would modify it for use by their helicopters and ground forces. It also would aid them in developing countermeasures to Western thermal-imaging devices. []

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ISRAEL: Doctors' Strike

The government's popularity in opinion polls has dropped to its lowest point in two years as a result of a doctors' strike and other economic problems. Most doctors went on a full-scale strike on Sunday to demand higher pay and a shorter workweek, although they agreed early today to a partial work resumption pending the outcome of a cabinet meeting to discuss the dispute. Finance Minister Aridor reportedly has threatened to resign if the cabinet gives in to the doctors' demands for fear that other workers in the public sector would then demand similar pay hikes, which would increase the budget deficit and make inflation worse. Despite current economic troubles, however, the government yesterday defeated a no-confidence motion introduced by the Labor Party. [REDACTED]

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Comment: Unless the Likud begins to deal more effectively with these problems, it risks losing the support of working-class Sephardic voters over the longer term. [REDACTED]

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Special Analysis

JAPAN-US: Nakasone's Visit

Prime Minister Nakasone is trying, with his visit to Washington on Friday and his attendance at the Williamsburg Summit, to build on the personal relationships begun during his trip to the US last January. He hopes to strengthen his credentials as a statesman and spokesman for Asian interests. In Washington, Nakasone will confirm his country's commitment to the Western alliance, express willingness to help world economic recovery, and explain the positions he will take at the summit. He wants to forgo a discussion of Japanese defense policy and to avoid the kind of damaging political fallout that resulted from his visit in January, when he said Japan would become an "unsinkable aircraft carrier."

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Japanese prime ministers have come to rely on diplomatic ventures to improve their political positions at home. Nakasone's visit to the US follows a successful tour of Southeast Asia, and he presumably hopes his discussions in the US will add to his stature at home in time to affect the elections for the upper house in late June.

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Nakasone is outgoing and direct, and he will seek to play a more active role at the summit than his predecessor. He is well briefed, understands the issues, speaks English, and enjoys the limelight.

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The Japanese leader has been on the defensive at home, however,

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because many Japanese believe he went too far in his defense commitments to the US. Nakasone has been trying to dispel the image of subservience to Tanaka. In defiance of Tanaka's wishes, he recently decided not to hold lower house elections this summer.

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Although the economy has begun to show signs of recovery, Nakasone still suffers from some popular dissatisfaction over his economic management. He has indicated that the budget for next year will be even more austere than the one this year and has vowed not to raise taxes to solve the deficit problem. In such a situation, it will take considerable personal effort for him to win approval for a higher budget for defense.

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Top Secret**Bilateral Talks**

In Washington, Nakasone is likely to place great emphasis on reconfirming the "unshakable alliance" proclaimed during his visit in January. He prefers that specific bilateral problems, including defense and trade issues, be addressed only lightly during the discussions.

If pressed on bilateral issues, he probably will point to the extension of voluntary automobile export restraints and legislation improving standards and certification procedures that will benefit foreign companies. He also will note the recent agreement by Toyota Motors to produce automobiles jointly in the US. Nakasone is prepared to defend Japan's much-criticized policy of selecting promising new industries for government assistance.

If Japan's agricultural import barriers are discussed, Nakasone will respond that he continues to monitor the progress of talks that are under way.

The Prime Minister plans to outline the results of his recent visits to the ASEAN countries and to highlight the strategic importance of that region. He will solicit US views on East-West issues, the Middle East, and Sino-US relations. He also will confirm Japan's commitment to a global solution to the INF issue and emphasize the need for nuclear disarmament, urging an early summit between US and Soviet leaders.

Japan's own relations with the USSR remain strained on a number of issues, including the deployment of SS-20s in Asia. The Japanese are still angry about Foreign Minister Gromyko's attacks on Japan's defense policies and his allegations that Japan permits nuclear arms in Okinawa. The recent revelations of Soviet espionage activities in Japan also have hurt relations.

At Williamsburg

Nakasone has said publicly that he will urge the leaders at the summit to unite behind President Reagan to give the US flexibility in its disarmament talks with the USSR. He says he intends to bring up the issue of the SS-20s at the summit.

On economic matters, Nakasone has been advised by the Ministry of Finance to support joint intervention by major countries in foreign exchange markets, even though the Ministry views current proposals for monetary reform as unrealistic. The Prime Minister also is being urged not to support President Mitterrand's suggestion to hold an international monetary conference aimed at replacing the current floating rate system. The Ministry believes that discussions on policy coordination and joint interventions begun at the Versailles Summit last year will be more effective in the long run than a formal conference.

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